

**New Issue: MOODY'S ASSIGNS Aa1 RATING AND STABLE OUTLOOK TO THE IDAHO BOND BANK AUTHORITY REVENUE BONDS, SERIES 2010C**

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Global Credit Research - 15 Nov 2010

**APPROXIMATELY \$234 MILLION OF DEBT AFFECTED, INCLUDING CURRENT OFFERING**

Rexburg (City of) ID  
Other Sectors  
ID

**Moody's Rating**

ISSUE	RATING
Revenue Bonds, Series 2010C	Aa1
<b>Sale Amount</b>	\$10,000,000
<b>Expected Sale Date</b>	11/18/10
<b>Rating Description</b>	Revenue Bonds

**Opinion**

NEW YORK, Nov 15, 2010 -- Moody's Investors Service has assigned a Aa1 rating and a stable outlook to the Idaho Bond Bank Authority Revenue Bonds, Series 2010C expected to be issued in the amount of \$10.0 million. At this time, Moody's affirms the Aa1 rating on the Idaho Bond Bank Authority's outstanding bonds in the approximate amount of \$224 million. All of the bond bank's debt is currently fixed rate obligations. Proceeds from the current offering will be used to provide a loan to one participant. Proceeds from the current sale are secured by the City of Rexburg's wastewater system net revenues. Further security is provided by the state intercept whereby intergovernmental revenues will be transferred directly to the trustee to pay debt service if payment has not been received within ten days of the debt service payment date. The 2010C bonds are also secured by a pledge of the state's sales tax revenues.

**RATINGS RATIONALE**

The Aa1 rating primarily reflects the broad pledge of the State of Idaho's (Issuer Rating Aa1, with a stable outlook) sales tax revenues, the state intercept mechanism, satisfactory payment timing. The rating also takes into account satisfactory financial operations and coverage levels of the wastewater system as well as the participant level legal provisions.

**BOND BANK AUTHORIZED BY CONSTITUTION AND STATUTE AND APPROVED BY VOTERS**

The Idaho Bond Bank program was authorized in 2001 as a result of a series of legislative and voter-approved actions. The Legislature approved an amendment to the Idaho State Constitution (Article VIII, Section 2A); the voters of Idaho approved the creation of the Idaho Bond Bank and the state sales tax pledge in 2000. The program was authorized in 2001 by the Idaho Bond Bank Authority Act (Title 67, Chapter 87 of the Idaho Statutes), which established the bond bank to provide Idaho communities with an attractive mechanism for financing local infrastructure. Under the bond bank program, each series of bonds is secured by a pledge of the underlying borrowers. The security set forth in each underlying borrower's loan agreement may include, but is not limited to a general obligation, pledge of net enterprise revenues or property tax assessments. Further, the bond bank program includes a credit review process and minimum credit criteria for potential borrowers. The process includes a qualitative component ensuring eligibility in the program, the legal authority to borrow, and a review of the borrower's capital planning program. The quantitative component evaluates criteria including the historical strength of the borrower's specific pledge, the impact of the borrowing on operating funds, and minimum debt service coverage thresholds, as well as economic, population and tax base trends.

**MECHANISMAND TIMING OF STATE SALES TAX PAYMENTS IS SATISFACTORY; PLEDGED STATE SALES TAX REVENUES PROVIDE HEALTHY COVERAGE OF IDAHO BOND BANK AUTHORITY BONDS; BOND BANK BECOMING SOMEWHAT CONCENTRATED**

Interest payments are due March 15 with principal and interest due on September 15. Bond bank loan participants are required to pay the bond bank trustee 15 days prior to bond payment. If the participant's payment has not been received within 10 days of the payment date, the trustee is required to notify the state treasurer to implement intercept procedures, if applicable. Finally, if funds are insufficient within five days of the payment date, the state treasurer will transfer from the state sales tax account an amount sufficient to make the scheduled debt service payment.

Due to a constitutional prohibition on the lending of the state's credit to municipalities, Idaho has opted to provide for a pledge of state sales tax revenues to guarantee full and timely payment of loan participant debt service when due. The State of Idaho's Tax Anticipation Notes (TANs) have the most senior lien on the sales tax revenues. The TANs, however, are secured by tax revenues, including individual income, sales tax collections, and corporate income, to be received in the fourth quarter, as well as the state's full faith and credit general obligation pledge. The State of Idaho's Tax Anticipation Notes Series 2010 in the amount of \$500 million received a Moody's MIG-1 rating in June 2010 and projected fourth-quarter revenues provide 1.6 times coverage of note principal. Conservatively assuming no fourth quarter sales tax revenues are available, Moody's conservatively estimates coverage of outstanding Idaho Bond Bank Authority MADS at 44.2 times and coverage of combined IBBA and Idaho School Bond Guaranty program (ISBG) MADS at 9.57 times.

ISBG bonds issued since July 1, 2001 outstanding in the approximate amount of \$643.82 million have a parity lien on State Sales Tax Revenues. To date the ISBG program (Aaa) has never made any claims against the State Sales Tax revenues given the voter-approved unlimited ad valorem property tax pledge securing each ISBG participant, presence of Public School Permanent Endowment Fund and the state intercept mechanism. Typically, the amount of interceptable revenues allocated to a school district far exceed the amount of annual debt service required to be paid in any given year; fiscal 2010 interceptable revenues to school districts participating in the ISBG program provided an average of

roughly 15 times coverage of MADS.

Similar to other western states, depressed consumer activity resulted in declining sales tax revenues in fiscal 2009 by 10.3% from the prior year followed by a subsequent 6.4% drop in fiscal 2010. For the current year, officials recently revised fiscal 2011 state sales revenues to increase slightly by 2.29% (compared to the original projection of 3.9% at the beginning of the year). Including the current sale coverage of maximum annual debt service (MADS) in 2021 of all outstanding IBBA debt by fiscal 2010 pledged revenues is still strong at 58.9 times. FY10 state sales tax revenues are estimated to provide MADS (2012) coverage of roughly 12.8 times for both the IBBA program and the Idaho School Bond Guaranty Program (ISBG). As of August 2010, the state's unemployment rate increased only slightly to 8.6% (from 8.5% in August 2009), but below the nation (9.5%). To date, the program does not have a borrowing cap. Moody's will continue to monitor the borrowing trends of both the IBBA and the school bond guaranty program; management indicates preliminary planning on establishing a borrowing cap.

Moody's notes the program has become more concentrated among only a few borrowers, in particular since 2009. For example four participants each make up between approximately 11% and 12% of total outstanding loans; combined, the top four largest borrowers now represent 47% of total par which Moody's views as somewhat concentrated. A partial mitigant is that three of those four borrowers have pledged an unlimited property tax to repay the loans. Given the program's success and resulting increased borrowings, future reviews will focus on the program's implementation of a borrowing cap and monitoring of existing participant credit quality.

#### CREDIT QUALITY OF CURRENT PARTICIPANT IS SATISFACTORY

The current sale includes a single loan of \$10.0 million to the City of Rexburg Wastewater Enterprise System (no underlying rating). The loan is secured by the net revenues of wastewater enterprise system. The loan is relatively small and makes up only about 4% of total outstanding loans since the program's inception. The current loan is also secured through state intercept payments established under Idaho Code. Importantly, the 2010C bonds are additionally secured by a transfer from the state sales tax account in an amount sufficient to make the scheduled debt service payment.

Each participant in the program is required to execute a loan agreement with the bond bank to provide funds to make payments on the new loan. The bond bank will use these payments to repay the participant's loan funded with the Series 2010C bonds. There are no cross-default provisions in the loan agreements; therefore each participant will not be liable for the failure of any other municipality to make payments with respect to previously issued bonds.

Since the 2000 census, the city's population increased a rapid 66% to an estimated 28,575 residents (2009). The 9.5 square mile city is located in southeastern Idaho and is the Madison County seat. According to the 2000 census, per capita and median family income levels were well below state averages at 51% and 83%, respectively. Proceeds from the current sale will expand the city's wastewater treatment plant from 3.6 million gallons per day (MGD) to 5.4 MGD; current average usage is 2.5 MGD. The city does not have parity borrowing plans in the next five years and recently increased usage rates to provide for sufficient net revenues to cover annual debt service payments.

Moody's notes as weakness the system's wastewater enterprise is aggregated with two other enterprises in the city's audited financial statements. Pro-forma fiscal 2009 net working capital appears to be satisfactory at roughly 27% of gross revenues (\$941,000) and below average relative to prior years. Fiscal 2009 net revenues provided a sound 1.9 times coverage of maximum annual debt service (MADS) on the current sale and including a recent rate increase, effective for FY10, coverage of MADS improves to 2.2 times. The current sale pays out at an above average 55% in ten years and the pro-forma debt ratio increases to 62%. Legal provisions are somewhat weak and include a rate covenant requiring 1.25 times coverage of annual debt service, an additional bonds test of 1.25 times MADS, and no debt service reserve requirement unless the rate covenant is not satisfied. In this case the requirement must be met within four years and will be equal to the standard lesser of test.

What could make the rating move - UP

- Sustained strong increase in state sales tax revenues
- Trend of reduced borrowing amounts and borrower concentration
- Trend of improved credit quality at borrower level

What could move the rating - DOWN

- Significant leveraging of state sales tax pledge
- Use of the state intercept or state sales tax to make up borrower deficiencies
- Increased borrower concentration
- Lack of participant monitoring and program borrowing cap over the medium term

#### KEY STATISTICS:

City of Rexburg Wastewater Enterprise

Service area population: 28,575

Loan Amount: \$10.0 million

Purpose: Expand peak flow capacity, facility upgrades

FY09 coverage of maximum annual debt service: 2.18 times

#### Outlook

The Idaho Bond Bank Authority's rating outlook is stable based on continued solid coverage of outstanding debt service and a recent improvement in state sales tax revenues. Subsequent reviews will focus on the frequency of future borrowing, dilution of coverage by state sales

tax revenues, as well as borrower concentration and credit quality.

The last rating action was on October 22, 2010 when a rating of Aa1 with stable outlook was assigned to the Idaho Bond Bank Authority.

The principal methodologies used in rating Idaho Bond Bank Authority were State Aid Intercept Programs and Financings published in February, 2008 and Analytical Framework for Water and Sewer System Ratings rating methodology published in August 1999. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

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